

## Message Text

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44-S

ACTION NEA-10

INFO OCT-01 ISO-00 NEAE-00 SS-15 SAM-01 SP-02 INR-07 NSC-05

CIAE-00 /041 W

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P 011211Z MAR 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 541

INFO SECTREASURY WASHDC

AMEMBASSY ABU DHABI PRIORITY

LIMITED OFFICIAL USE SECTION 1 OF 2 CAIRO 2697

TREASURY FOR SECRETARY SIMON'S PARTY

E.O. 11652: NA

TAGS: US EG JC EAID EGEN

SUBJECT: GOE STEPS TO REDRESS ECONOMIC IMBALANCES

REF: CAIRO 2670

1. AT FEB 27 MEETING WITH UNDER SECRETARY ROBINSON (REFTEL, MINECONCOOP SHAFEI PRESENTED COPY OF DOCUMENT DETAILING STEPS TAKEN BY GOE SINCE JUNE 1975 TO EDRESS IMBALANCES IN ECONOMY. MINISTER ACKNOWLEDGED THAT STEPS NOT AS EXTENSIVE AS SOME MIGHT WISH, BUT NOTED THEY ARE A BEGINNING. MEASURES ARE BROKEN DOWN INTO THREE AREAS, REPORTED BELOW.

2. BEGIN TEXT:

I - THE ORGANIZATIONAL ASPECT

1. THE ABOLISHMENT OF PUBLIC ORGANIZATIONS

THE PUBLIC LAW NO III OF THE 4TH OF SEPTEMBER, 1975

AIMS TO OVERCOME ALL BUREAUCRATIC AND RED TAPE IMPEDIMENTS

IN THE PUBLIC SECTOR. BESIDES, IT GIVES FREEDOM FOR THE

DECISION MAKING PROCESS TO OPERATE TO ATTAIN A DUAL AIM:

NAMELY THE INCREASE OF PRODUCTION AND EXPORTS AS WELL AS

ORGANIZE A WELL-KNIT INCENTIVE SCHEME.

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2. THE REORGANIZATION OF THE GENERAL AUTHORITY FOR ARAB

AND FOREIGN INVESTMENT IN A WAY THAT WOULD ENABLE IT TO OVERCOME ANY KIND OF DELAY.

## II. MEASURES IN THE INDUSTRIAL REALM

### 1. RAISING THE PRICE OF AGRICULTURAL COMMODITIES, E.G., COTTON.

A - TOTAL COST AMOUNTS TO L.E. 70 MILLION.

B - THE PRIME MOVER BEHIND THIS MEASURE IS TO INCREASE THE AGRICULTURAL PRODUCTS FOR LOCAL CONSUMPTION. IN ADDITION, AN INCREASE OF EXPORTS AS WELL AS A MORE REALISTIC REDISTRIBUTION OF INCOME BETWEEN THE URBAN AND RURAL SECTORS OF SOCIETY.

### 2. REFORMING THE BANKING SYSTEM ACCORDING TO THE PUBLIC LAW NO 120 OF 1975, THE OBJECTIVES ARE REFLECTED IN THE FOLLOWING:

A - ABOLISHING THE CEILING ON INTEREST RATE

B - ABOLISHING THE SPECIALIZATION OF BANKS TO GIVE WAY TO MORE COMPETITION.

C - ALLOWING BANKS TO EXERCISE THEIR FREEDOM IN DECISION MAKING.

D - ALLOWING BANKS TO PRESENT THEIR OWN SALARY SCALE TO OBTAIN THE QUALIFIED CALIBER OF EMPLOYEES.

### 3. REDUCING SUBSIDIES

A - THE TOTAL REDUCTION IN THE 1976 BUDGET AMOUNTS TO L.E. 131 MILLION (FROM 642 MILLION IN 1975 TO 511 MILLION IN 1976)

B - A TWO-YEAR SYSTEM WAS ADOPTED IN PRICING OF BASIC COMMODITIES, E.G., SUGAR, TEA, OIL AND RICE. THUS, A BASIC AMOUNT HAS BEEN ALLOCATED FOR EACH INDIVIDUAL. IN ADDITION TO THE AMOUNTS PROVIDED FOR AT THE MARKET PRICE.

C - CHANGE IN PACKAGING COUPLED WITH AN INCREASE IN PRICES TO REDUCE CONSUMPTION.

D- MEASURES ARE BEING TAKEN TO CANCEL SUBSIDIES FOR FROZEN MEAT, HALAWA AND OTHER ITEMS.

### 4. REDUCTION IN CURRENT GOVERNMENT EXPENDITURES

A - EXPENDITURES ON GOODS WAS REDUCED BY APPROXIMATELY LIMITED OFFICIAL USE  
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20 PERCENT IN MOST ITEMS. THUS, A SAVING OF AROUND L.E. 100 MILLION IS EXPECTED.

B - THIS, IN TURN, WILL REDUCE THE NET DEFICIT OF 1976 BUDGET AS WELL AS ELEVATE (SIC) SOME OF THE INFLATORY EFFECT PRESSURING THE ECONOMY.

### 5. REFORM OF THE TAXATION SYSTEM

A - TO ATTAIN THIS END, FIVE PROPOSED STATUTES WERE SUBMITTED TO THE NATIONAL ASSEMBLY FOR THE FOLLOWING PURPOSES:  
1) NECOURAGING PRODUCTION INVESTMENT

- 2) IMPOSING TAXES ON CAPITAL GAINS - REAL ESTATE  
AND OTHER INCOME RATE NOT PREVIOUSLY TAXED.
- 3) REORGANIZING TAX COLLECTION, ADMINISTRATION AND  
PENALIZING TAX EVASION.

B - IT IS ANTICIPATED THAT THE ABOVE MENTIONED MEASURES  
WOULD INCREASE THE GOVERNMENT REVENUES; AS WELL  
AS REDUCE THE ANNUAL DEFICIT OF THE BUDGET.

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AMEMBASSY ABU DHABI PRIORITY

LIMITED OFFICIAL USE SECTION 2 OF 2 CAIRO 2697

TREASURY FOR SECRETARY SIMON'S PARTY

### III. THE EXTERNAL REALM

- 1. INCREASE IN THE GASOLINE AND ALCOHOLIC PRICE
  - A - THE PRICE OF SUPER GASOLINE HAS INCREASED FROM  
68 TO 80 MILLIEME A LITER (THIS PRICE IS EFFECTIVE  
AS OF JANUARY 19TH, 1976)
  - B - INCREASE OF 50 PERCENT OF TAXES IMPOSED ON BOTH  
IMPORTED AND LOCALLY MADE ALCOHOL.

- 2. REDUCTION IN THE USE OF BANKING FACILITIES
  - A - BY MID 1975, THE GOVERNMENT HAS EXERTED SOME  
EFFORT TO IMPROVE THE EGYPTIAN DEBT PROFILE.
  - B - BESIDES, NEW LETTERS OF CREDIT AUTHORIZED AT ANY  
PERIOD OF TIME HAS BEEN RESTRICTED TO THE AMOUNTS  
OF REPAYMENTS ON BANKING FACILITIES DURING THAT  
PERIOD.
  - C - NEW AUTHENTICATION HAS BEEN REDUCTED BY 50 PERCENT

OF REPAYMENTS

D - FROM JANUARY - OCTOBER 1975, THE NET PRODUCTION  
IN THE USE OF BANKING FACILITIES HAS BEEN RESTRICTED  
TO L.E. 190 MILLION.

3. THE LIBERALIZATION OF THE PARALLEL MARKET BY:  
A - ENCOURAGING THE INFLOW OF FOREIGN CURRENCY THROUGH  
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REMITTANCES OF EGYPTIAN WORKING ABROAD AS WELL  
AS TOURISTS. THE FOLLOWING STEPS WERE TAKEN:  
1) A TRANSFER OF 10 PERCENT OF THE TOTAL FOREIGN  
EXCHANGE BUDGET TO BE FINANCED BY THE PARALLEL MARKET.  
2) THE INCENTIVE RATE FOR THE DOLLAR HAS INCREASED  
FROM 60 TO 65 PIASTERS (EFFECTIVE FEBRUARY 1976)

B - THE INFLOW EXPECTED FROM THESE MEASURES IS  
ESTIMATED TO BE AROUND L.E. 120 MILLION ANNUALLY.  
C - THE ABOVE MENTIONED MEASURES WOULD EVENTUALLY  
RESTRICT THE INPUT OF NON-ESSENTIAL CONSUMERS'  
GOODS.

UNDOUBTEDLY, IT IS QUITE OBVIOUS THQHE ULTIMATE AIM IS TO  
NARROW THE GAP BETWEEN THE PARALLEL MARKET AND THE FREE  
MARKET PRICES. THIS, IN TURN, WILL REPLACE THE PRESENT  
FOUR RATE SYSTEM BY A TWO-RATE SYSTEM. END TEXT.  
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## Message Attributes

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